

**SEATTLE PUBLIC UTILITIES –
DRAINAGE AND WASTEWATER FUND**

FINANCIAL STATEMENTS FOR THE
YEARS ENDED DECEMBER 31, 2000 AND 1999, AND
INDEPENDENT AUDITORS' REPORT

Deloitte & Touche LLP

INDEPENDENT AUDITORS' REPORT

Director
Seattle Public Utilities –
Drainage and Wastewater Fund
Seattle, Washington

We have audited the accompanying balance sheets of the Seattle Public Utilities – Drainage and Wastewater Fund (the Fund) as of December 31, 2000 and 1999, and the related statements of operations and of cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

April 6, 2001

SEATTLE PUBLIC UTILITIES – DRAINAGE AND WASTEWATER FUND

BALANCE SHEETS

DECEMBER 31, 2000 AND 1999

<u>ASSETS</u>	<u>2000</u>	<u>1999</u>
UTILITY PLANT, at original cost:		
Plant in service, excluding land	\$411,231,734	\$382,591,950
Less accumulated depreciation	<u>(111,283,530)</u>	<u>(105,432,449)</u>
	299,948,204	277,159,501
Construction in progress	60,491,529	50,387,582
Land and land rights	<u>3,485,541</u>	<u>3,485,541</u>
	363,925,274	331,032,624
RESTRICTED ASSETS:		
Bond Reserve Fund:		
Cash and equity in pooled investments	4,427,413	4,260,727
U.S. government securities	1,627,597	1,619,155
Construction Fund – Cash and equity in pooled investments	12,183,622	42,763,392
Vendor deposits – Cash and equity in pooled investments	<u>368,588</u>	<u>226,006</u>
	18,607,220	48,869,280
CURRENT ASSETS:		
Cash and equity in pooled investments	9,576,493	1,935,045
Accounts receivable, net of allowances for doubtful accounts of \$52,355 and \$460,601	8,450,513	7,878,095
Unbilled receivables	6,908,483	7,169,535
Due from other City funds	686,736	10,742,819
Due from other governments	51,562	101,423
Current portion of notes and contracts receivable	36,427	43,966
Prepayments and other	<u>745</u>	<u>2,426</u>
	25,710,959	27,873,309
DEFERRED CHARGES AND OTHER:		
Unamortized bond issue costs, net	1,002,953	1,040,129
Prepaid secondary treatment service	434,458	488,766
Other deferred charges	<u>870,913</u>	<u>1,489,814</u>
	2,308,324	3,018,709
TOTAL	<u>\$410,551,777</u>	<u>\$410,793,922</u>

See notes to financial statements.

EQUITY AND LIABILITIES20001999

EQUITY:

Retained earnings	\$ 17,214,992	\$ 16,244,451
Contributions in aid of construction	<u>237,805,167</u>	<u>237,667,408</u>

255,020,159 253,911,859

REVENUE BONDS:

Revenue bonds, due serially	134,025,000	137,250,000
Less revenue bonds due within one year	(2,980,000)	(3,225,000)
Less bond discount and premium, net	(1,337,171)	(1,410,589)
Less deferred charges on advanced refunding	<u>(1,513,480)</u>	<u>(1,589,154)</u>

128,194,349 131,025,257

NONCURRENT AND OTHER LIABILITIES:

Public works trust loan – Noncurrent	56,476	65,888
Claims payable – Noncurrent	3,699,620	2,114,509
Vendor deposits payable	368,564	225,980
Other noncurrent liabilities	<u>295,424</u>	<u>247,260</u>

4,420,084 2,653,637

CURRENT LIABILITIES:

Accounts payable	10,357,143	9,195,543
Accrued payroll and payroll taxes payable	481,501	642,702
Accrued taxes payable	151,226	157,485
NOAA settlement payable	1,022,664	1,022,664
Compensated absences payable	1,311,387	542,827
Due to other City funds	4,984,644	6,349,366
Claims payable – Current	615,634	974,436
Revenue bonds due within one year	2,980,000	3,225,000
Public works trust loan due within one year	9,413	
Accrued interest payable	944,955	1,059,427
Deferred credits	1,523	
Other	<u>57,095</u>	<u>33,719</u>

22,917,185 23,203,169

TOTAL

\$410,551,777 \$410,793,922

SEATTLE PUBLIC UTILITIES – DRAINAGE AND WASTEWATER FUND

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
OPERATING REVENUES:		
Direct service	\$ 130,039,919	\$ 124,981,162
Other	<u>776,686</u>	<u>637,881</u>
	130,816,605	125,619,043
OPERATING EXPENSES:		
Wastewater treatment	78,282,898	76,946,502
Resource management	4,367,635	3,728,196
Field operations	12,840,205	11,109,967
Engineering services	1,918,637	1,530,527
Customer services	4,058,191	4,243,066
General and administrative	6,035,869	6,449,172
City business and occupation taxes	12,952,650	12,212,509
Other taxes	1,553,100	1,394,357
Depreciation and amortization	<u>6,732,204</u>	<u>6,577,967</u>
	<u>128,741,389</u>	<u>124,192,263</u>
Net operating income	2,075,216	1,426,780
OTHER INCOME (EXPENSES):		
Investment and interest income	2,943,716	1,580,671
Interest expense	(4,745,831)	(3,119,059)
Amortization of debt expenses	(186,268)	(170,321)
Operating grant income	49,879	338,400
Loss on sale of capital assets	(23,427)	(12,784)
Other, net	<u>857,256</u>	<u>(65,937)</u>
	<u>(1,104,675)</u>	<u>(1,449,030)</u>
NET INCOME (LOSS)	970,541	(22,250)
RETAINED EARNINGS:		
Beginning of year	<u>16,244,451</u>	<u>16,266,701</u>
End of year	<u>\$ 17,214,992</u>	<u>\$ 16,244,451</u>

SEATTLE PUBLIC UTILITIES – DRAINAGE AND WASTEWATER FUND

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
OPERATING ACTIVITIES:		
Cash received from customers	\$ 141,556,701	\$ 126,232,288
Cash paid to suppliers and employees	(105,649,545)	(108,294,954)
Cash paid for taxes	<u>(14,512,009)</u>	<u>(13,606,866)</u>
Net cash provided by operating activities	21,395,147	4,330,468
NONCAPITAL FINANCING ACTIVITIES:		
Payment received from loan to Engineering Services Fund		9,902,984
Grant revenues received	<u>99,740</u>	<u>338,400</u>
Net cash provided by noncapital financing activities	99,740	10,241,384
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of bonds		54,565,050
Principal payments on long-term debt	(3,225,000)	(2,520,000)
Payments on NOAA settlement		(300,000)
Contributions by municipalities and others	137,759	348,311
Capital expenditures and deferred charges	(38,975,622)	(37,776,828)
Interest paid on long-term debt	<u>(4,860,304)</u>	<u>(2,454,545)</u>
Net cash provided (used) by capital and related financing activities	(46,923,167)	11,861,988
INVESTING ACTIVITIES:		
Interest received on investments	<u>2,799,226</u>	<u>1,597,878</u>
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	(22,629,054)	28,031,718
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	<u>49,185,170</u>	<u>21,153,452</u>
End of year	<u>\$ 26,556,116</u>	<u>\$ 49,185,170</u>

SEATTLE PUBLIC UTILITIES – DRAINAGE AND WASTEWATER FUND

STATEMENTS OF CASH FLOWS *(continued)*
YEARS ENDED DECEMBER 31, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	\$ 2,075,216	\$ 1,426,780
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	6,732,204	6,577,967
Changes in operating assets and liabilities:		
Accounts receivable	285,390	825,752
Unbilled receivables	261,052	(245,635)
Due from other City funds	10,200,573	(9,796,843)
Other assets	778	11,559
Vendor deposits payable	142,584	224,674
Accounts payable	1,161,600	2,161,977
Accrued payroll and payroll taxes payable	(161,201)	406,899
Compensated absences payable	768,560	12,426
Due to other City funds	(1,364,722)	715,223
Claims payable	1,226,309	1,756,838
Other liabilities	<u>66,804</u>	<u>252,851</u>
Total adjustments	<u>19,319,931</u>	<u>2,903,688</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 21,395,147</u>	<u>\$ 4,330,468</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Contributions of utility plant	\$ —	\$ 41,752

SEATTLE PUBLIC UTILITIES – DRAINAGE AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2000 AND 1999

NOTE 1: OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations: The City of Seattle, Seattle Public Utilities – Drainage and Wastewater Fund (the Fund) is a public utility enterprise fund of the City of Seattle (the City). On January 1, 1997, the City created Seattle Public Utilities, which brought together under one administrative umbrella the Water, Solid Waste, and Drainage and Wastewater functions of the City as well as certain engineering functions. The Fund (as well as the other funds) remain separate for accounting purposes. Seattle Public Utilities receives certain services from other departments and agencies of the City, including some that are normally considered to be general and administrative. The Fund is charged a share of these costs and additionally pays a business and occupation tax to the City's General Fund. Wastewater disposal services provided to other City departments and agencies are at rates prescribed by City ordinances.

Customer service and utility billing are performed by Seattle Public Utilities (SPU). The cost of this function is shared between SPU's three utility funds (Water, Drainage and Wastewater, and Solid Waste) and Seattle City Light. For the years ended December 31, 2000 and 1999, the Fund paid \$4,058,191 and \$4,243,066, respectively. SPU charged Seattle City Light \$3,322,062 in year 2000 and \$2,916,233 in year 1999 for the services provided.

The Fund is subject to regulation by the City and the State of Washington. Service rates are authorized by ordinances passed by the City Council. Accounting policies and financial reporting are regulated by the Washington State Auditor's Office, Division of Municipal Corporations, and conform to accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Fund has chosen to apply all pronouncements and interpretations issued by the Governmental Accounting Standards Board (GASB), as well as those issued by the Financial Accounting Standards Board (FASB) on or before November 30, 1989, except when they conflict with GASB.

Basis of accounting: The Fund is accounted for on a flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. With the flow of economic resources measurement focus, all assets and liabilities associated with the Fund's operations are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributions from other governments and retained earnings components. The operating statements present increases (revenues) and decreases (expenses) in total assets.

Revenues: Wastewater service revenues are recorded through cycle billings rendered to customers monthly or bimonthly. The Fund accrues and records unbilled wastewater service revenues in the financial statements for services provided from the date of the last billing to year end.

Drainage service charges are billed to the City's drainage residential and nonresidential customers twice a year through the service of King County's property tax billing system. These charges fund operations and maintenance of and improvement to the City's system of storm and drainage facilities.

Cash and equity in pooled investments and investments: The City's Executive Services Department – Finance Division invests all temporary cash surpluses for City departments. The City may, at various times, invest these surpluses in certificates of deposit issued by Washington State depositories that participate in a state insurance pool, U.S. Treasury and agency securities, prime bankers' acceptances trading in the secondary market, and repurchase or reverse-repurchase agreements with primary dealers that use authorized securities as collateral. Delivery of collateral on the underlying securities is required on all repurchase agreement transactions. The Fund is allocated interest income by the City.

It is the City's policy that all investments of the Fund, except repurchase or reverse-repurchase agreements, be held by banks or trust companies as agents of the City and in the City's name. The Fund did not own any repurchase or reverse-repurchase agreements during 2000 and 1999. Investments are stated at fair value, which is estimated based on quoted prices for those investments. It is the City's policy to hold all investments until maturity.

Utility plant: Costs of additions to utility plant are capitalized. Costs include direct material, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest. The cost of current repairs and maintenance is charged to expense, while the cost of improvements is capitalized.

The Fund received donations of utility plant for the City, the state, and private contractors in the amount of \$-0- and \$41,752 for the years ended December 31, 2000 and 1999, respectively. The Fund has recorded these donations at their fair value as an increase in utility plant and contributions in aid of construction.

Depreciation: Plant in service is depreciated on the straight-line method over estimated useful lives as follows:

Buildings	50 years
Laterals, mains, and outfalls	75 years
Detention structures	50 years
Pumping stations, equipment, and overflow structures	10 – 50 years
Machinery and equipment	5 – 20 years

Composite rates, based on year of addition, are used for depreciating the laterals, mains, and outfalls asset groups. Consequently, when these assets are retired, their original cost, less salvage, is charged to accumulated depreciation. It is the Fund's policy to begin depreciation in the year following acquisition and to record a full year's depreciation in the year of disposition.

Contributions in aid of construction: Various agencies of the federal and state governments make grants to the Fund to aid in financing construction costs. Grant contributions received are recorded as contributions in aid of construction when all of the conditions of the grant have been fulfilled. There were \$137,759 of capital grant contributions in 2000.

Amounts received or receivable from grants are subject to audit by the granting agencies. In the opinion of Fund management, the claimed grant costs are in accordance with the grant terms.

Deferred charges: The Fund prepaid \$1,086,146 in 1986 to another wastewater district for certain secondary treatment wastewater services to be provided in the future. This payment was made to fund a portion of the cost of future construction of a secondary treatment plant to be owned and operated by the other district. The treatment plant was completed in 1989. The Fund is amortizing the deferred costs to expense over a period of 20 years at \$54,307 per year and includes the amortization in rates charged to customers.

The Fund funds its portion of new computer systems developed by other City departments. These systems are being amortized over the systems' estimated useful lives of six to eight years. Amortization expense was approximately \$47,660 and \$121,091 for 2000 and 1999, respectively.

The City and the Fund designed and installed a geographic information system (GIS) that was placed into service in 1996. Deferred system costs totalling \$3,486,614 are being amortized over six years. Amortization expense of \$581,102 was recognized in both 2000 and 1999.

Compensated absences: Employees earn vacation based upon their date of hire and years of service, and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Earned but unused vacation is accrued as a liability of the Fund.

Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees are paid 25% of the value of unused sick leave upon retirement. They are not paid for unused sick leave if they leave before retirement. The Fund records a liability for estimated sick-leave payments.

Taxes: The Fund is charged a business and occupation tax by the City at a rate of 10% of Fund revenues, net of certain credits. In addition, the Fund paid a public utility tax to the state based on approximately 4% of a certain portion of revenues. The remainder was taxed under the business and occupation tax at the rate of 1.5% in 2000 and 1999.

New accounting pronouncement: In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, effective for the Fund in fiscal year 2002. This statement requires governments to present certain basic financial statements as well as management's discussion and analysis and certain other required supplementary information. The Fund does not anticipate a material impact to the financial position or operations of the Fund as a result of implementing this standard.

Use of estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. The Fund used significant estimates in determining reported unbilled revenues, allowance for doubtful accounts, accrued sick leave, and other contingencies. Actual results may differ from those estimates.

Reclassifications: Certain reclassifications have been made to prior year balances to provide a presentation consistent with the current year.

NOTE 2: UTILITY PLANT

Utility plant, net, at cost consists of the following as of December 31:

	<u>2000</u>	<u>1999</u>
Buildings	\$ 381,581	\$ 381,581
Improvements	403,243,247	375,862,264
Machinery and equipment	6,197,517	5,795,217
Debt processing equipment	5,247	
Direct service meters and services	1,116,001	264,747
Artwork	<u>288,141</u>	<u>288,141</u>
Total plant in service	411,231,734	382,591,950
Less accumulated depreciation	<u>(111,283,530)</u>	<u>(105,432,449)</u>
	299,948,204	277,159,501
Land and land rights	3,485,541	3,485,541
Construction in progress	<u>60,491,529</u>	<u>50,387,582</u>
Utility plant, net	<u>\$363,925,274</u>	<u>\$331,032,624</u>

During 2000 and 1999, the Fund capitalized interest costs relating to construction of \$2,703,335 and \$1,868,451, respectively.

NOTE 3: CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

The first \$100,000 of bank deposits are federally insured. The Washington State Public Deposit Protection Commission (PDPC) collateralizes deposits in excess of \$100,000. The PDPC is a multiple financial institution collateral pool. There is no provision for the PDPC to make additional pro rata assessments if needed to cover a loss. Therefore, the PDPC protection is of the nature of collateral, not of insurance.

The cash pool operates like a demand deposit account in that all agencies, including the City, may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments. The cash balances for 2000 and 1999, respectively, are summarized as follows:

	<u>2000</u>	<u>1999</u>
Drainage and Wastewater Fund	\$ 9,576,493	\$ 1,935,045
Construction Fund (restricted)	12,183,622	42,763,392
Bond Reserve Fund (restricted)	4,427,413	4,260,727
Vendor deposit	<u>368,588</u>	<u>226,006</u>
	<u>\$26,556,116</u>	<u>\$49,185,170</u>

Investments of \$1,627,597, which are shown on the balance sheet under restricted assets as of December 31, 2000, are categorized to give an indication of the level of risk assumed by the Fund at year end. All investments are considered to be Category 1 based on the criteria promulgated by the GASB. Category 1 includes investments that are insured or for which the securities are held by the Fund or its agent in the Fund's name.

Securities with maturities exceeding three months at time of purchase are reported at fair value on the balance sheets; the net increase (decrease) in the fair value of those investments is reported as part of investment income.

NOTE 4: REVENUE BONDS

At December 31, 2000 and 1999, revenue bonds consisted of the following:

	<u>2000</u>	<u>1999</u>
1999 Municipal Drainage and Wastewater Revenue Bonds, 4.0% – 5.75% due through 2029, insured by a third- party insurer	\$ 54,425,000	\$ 55,000,000
1998 Municipal Drainage and Wastewater Revenue Bonds, 4.5% – 5.0%, due through 2027, insured by a third- party insurer	22,940,000	23,340,000
1995 Municipal Drainage and Wastewater Improvement and Refunding Revenue Bonds, 5.0% – 5.25%, due through 2025, insured by a third-party insurer	37,705,000	38,595,000
1992 Municipal Drainage and Wastewater Revenue Bonds, 5.1% – 6.0%, due through 2022	18,630,000	19,055,000
1977 Municipal Sewage Revenue Construction and Refunding Bonds, 4.8% – 5.25%, due through 2000		630,000
1971 Municipal Sewage Revenue Bonds, 4.0% – 6.0%, due through 2001	<u>325,000</u>	<u>630,000</u>
	<u>\$ 134,025,000</u>	<u>\$ 137,250,000</u>

In October 1999, the Fund issued \$55,000,000 of Drainage and Wastewater Revenue Bonds with varying annual and term principal payments beginning in 2000 and ending in 2029, with annual interest rates ranging from 4.00% to 5.75%. Proceeds of the issuance are being used to finance certain capital improvements and the Conservation Programs Fund.

Minimum debt service requirements on revenue bonds are as follows:

<u>Years ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 2,980,000	\$ 7,171,756	\$ 10,151,756
2002	2,780,000	7,034,475	9,814,475
2003	2,915,000	6,902,915	9,817,915
2004	3,060,000	6,763,273	9,823,273
2005	3,205,000	6,614,923	9,819,923
Thereafter	<u>119,085,000</u>	<u>84,636,764</u>	<u>203,721,764</u>
	<u>\$ 134,025,000</u>	<u>\$ 119,124,106</u>	<u>\$ 253,149,106</u>

The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain net revenue available for debt service at least equal to 1.25 times average annual debt service. Net

revenue available for debt service, as defined by the bond covenants, was 3.7 times annual debt service for 1999. Net revenue available for debt service for the year ended December 31, 2000, is determined as follows:

Net operating revenues	\$ 2,075,216
Add:	
City occupation tax	12,952,650
Depreciation and amortization	6,732,204
Investment income	2,943,716
Claims, damages, and other expenses not paid in 2000	1,226,309
Noncash investment fair value adjustment	(205,440)
Operating grants and other revenue	<u>907,135</u>
Adjusted net revenue available for debt service	<u>\$26,631,790</u>
Debt service requirement	<u>\$10,796,813</u>
Coverage	<u>2.47</u>

NOTE 5: NOAA SETTLEMENT

In 1991, the City entered into a consent decree (the Decree) with the United States, the Muckleshoot Indian Tribe, the Suquamish Indian Tribe, and the State of Washington to make restitution of up to \$12,125,000 for alleged damages to the natural resources of Elliott Bay and the Lower Duwamish River by combined sewer overflow and storm drain discharges (the NOAA Settlement). The Elliott Bay Duwamish Restoration Program Panel (the Panel), of which the City is a member, was formed to direct the project activities to be performed in accordance with the Decree.

The Decree calls for payment of \$6,000,000 for sediment remediation, \$2,500,000 for habitat development, and \$125,000 for reimbursement of costs for natural resources damage assessment. The Panel may allow for payment through in-kind services as approved. Additionally, up to \$2,500,000 of real property and up to \$1,000,000 of in-kind services for source control must be provided. The Fund is charged with the responsibility of managing the City's obligation, which includes contributions from other funds.

In 1997, the Fund made a cash payment of approximately \$6,235,000 toward the liability. An additional \$2,200,000 of the liability was settled by the Parks Department on behalf of the Fund, through a donation of real property. This has been reflected in the statement of revenues, expenses, and changes in accumulated net revenues as an increase to other revenues. Prior to December 31, 1996, the Fund settled \$2,364,000 of the liability through cash payments and in-kind services. The remaining liability is estimated to be \$1,022,664 at December 31, 2000.

NOTE 6: RETIREMENT PLANS

Pension: All permanent Fund employees are eligible to participate in the Seattle City Employees' Retirement System (the System), a cost-sharing public employee retirement system operated by the City. Benefits vest after five years of covered service. City employees may retire after 30 years of service regardless of age; after age 52, with 20 or more years of service; after age 57, with 10 or more years of service; and after age 62, with five or more years of service. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by City ordinances. The System's financial report that includes financial statements and required supplementary information for the System is available through the City.

City employees are required to contribute 8.03% of their annual base salary to the System. The City's contribution rate was 8.03% as of January 1, 2000 and 1999. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2000, 1999, and 1998, were approximately \$1,072,229, \$560,984, and \$497,000, respectively. The Fund's contribution in 2000 represents its full liability to the System.

The System issues stand-alone financial statements which may be obtained by writing to the Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, WA 98104; telephone (206) 386-1292.

Employer contributions for the City of Seattle are as follows (dollars in millions):

<u>Year ended December 31,</u>	<u>City required contribution</u>	<u>City actual contribution</u>	<u>Percentage contributed</u>
1998	\$ 30.6	\$ 30.6	100 %
1999	29.9	29.9	100
2000	30.8	30.8	100

Actuarial data and assumptions

Valuation date	January 1, 2000
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	-0- years
Amortization period	Open
Asset valuation method	Market
Investment rate of return	8.00%
Projected general wage inflation	4.50%
Postretirement benefit increases	.67%

Schedule of funding progress is as follows (dollars in millions):

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liabilities (AAL) entry age (1) (b)</u>	<u>Unfunded AAL (UAAL) (2) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (3) (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/ c)</u>
1/1/1998	\$ 1,224.6	\$ 1,266.7	\$ 42.1	96.7 %	\$ 341.5	12.3 %
1/1/1999	1,375.0	1,326.6	(48.4)	103.6	370.4	(13.1)
1/1/2000	1,582.7	1,403.1	(179.6)	112.8	370.4	(48.5)

1. Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
2. Actuarial accrued liabilities less actuarial value of assets.
3. Covered payroll includes compensation paid to all active employees on which contributions are calculated.

Deferred compensation: The City offers all of its employees a deferred compensation plan (the Plan), created in accordance with Internal Revenue Code (IRC), Section 457. The Plan permits employees to

defer a portion of their salaries until future years. The deferred compensation is paid to employees upon termination, retirement, death, or unforeseeable emergency.

Effective January 1, 1999, the Plan is an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Plan shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries.

The Plan is not reported in the financial statements of the City or the Fund.

It is the opinion of the City's legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making the selection, participants accept and assume all risks inherent in the Plan and its administration.

NOTE 7: RISK FINANCING LIABILITIES

The City and the Fund are self-insured for certain losses arising from personal and property damage claims by third parties and for casualty losses to the Fund's property. Liabilities for identified claims and claims incurred but not reported have been recorded by the Fund.

At December 31, 1995, the City initiated a program to convert its insurance plan for workers' compensation claims to a cost-reimbursement program. The Fund was not included in the first phase of the program but became a participant in 1998. The liability had formerly been recorded in the City's Industrial Insurance Fund. Until 1999, the City still maintained the liability for estimated incurred but not reported claims. This liability was transferred in 1999.

For 2000 and 1999, liabilities for workers' compensation claims as well as other claims are discounted over a 16-year period at the City's rate of return on investments, 6.17% and 5.69%, respectively. Claims expected to be paid within one year were \$615,634 and \$974,436 at December 31, 2000 and 1999, respectively. The schedule below presents the changes in the liability for workers' compensation claims and other claims (risk financing liabilities) as of December 31:

	<u>2000</u>	<u>1999</u>
Beginning liability	\$3,088,945	\$1,388,830
Payments		(161,752)
Incurred claims and changes in estimate	<u>1,226,309</u>	<u>1,861,867</u>
Ending liability	<u>\$4,315,254</u>	<u>\$3,088,945</u>

NOTE 8: WASTEWATER DISPOSAL AGREEMENT

The Fund has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division (the Division), which expires in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division's budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by the City of Seattle Public Utilities and other component agencies. The 2000 and 1999 cash payments to the Division were approximately \$77,526,021 and \$76,428,128, respectively.